

# Debtors' Ex. 47



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February 20, 2019

Mr. Mohammad Yassin Mahmud, Esq.  
Chief Legal & Regulatory Officer  
Puerto Rico Fiscal Agency and Financial Advisory Authority  
Roberto Sánchez Vilella (Minillas) Government Center  
de Diego Ave. Stop 22  
San Juan, PR 00907

**Re: PRTS –Benefit Payment and Member Contribution Projections Reflecting the  
2018 Voluntary Transition Program**

Dear Mohammad:

**Scope and Intent**

Milliman has been hired by the following parties (collectively the “Parties”) to assist in reviewing the current status of the retirement system identified below, and estimating the projected status of the System under various forward-looking scenarios requested by the Parties:

- Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”)
- Puerto Rico Department of the Treasury (“Treasury”)
- Puerto Rico Teachers Retirement System (“PRTS”)

The scope of this letter is limited. Milliman is neither a law firm nor an audit firm, and is not providing advice to the Parties in areas such as the legal ability to make revisions to any benefits, or the amount of the current and future available revenue that could be used to fund the System. Those functions are being performed by the Parties’ staff members and by other professional advisors that the Parties have retained. Additionally, Milliman is preparing analyses of the System for the Parties for decision-making purposes, but is not setting policy or recommending any particular changes be made to the retirement systems. All policy decisions are made by the Parties.

This analysis was prepared solely to provide assistance to AAFAF/Treasury/PRTS (the “Parties”). Milliman and the Parties do not intend to benefit and assume no duty or liability to other parties who receive this work. Milliman and the Parties recommend that any third party recipient of this analysis be aided by its own actuary or other qualified professional when reviewing the Milliman analysis.

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We would like to reiterate that Milliman's work is prepared for the use of the Parties. To the extent that Milliman's work product is provided to a third-party recipient, we remind such recipient that Milliman does not intend to benefit nor create any duty to any third-party recipient of this report. We recommend that any such recipient of this report engage its own qualified professional advisors for its own purposes rather than relying on the enclosed results. Any third party recipient of this work is required to sign or accept an agreement in advance of receiving this work. If any third party has received this work without appropriate authorization under such terms, it has obtained this work improperly and should immediately return or destroy the material.

## **Project Description**

Milliman has been requested to prepare a multi-decade projection of estimated benefit payments for members of PRTRS, which incorporates an estimate of the impact of the Program of Voluntary Transition for Employees of the Department of Education enacted via Administrative Order OA-2018-4 ("Voluntary Transition Program").

### *Notes*

Under Act 106-2017, PRTRS members hired August 1, 2014 and later had their hybrid plan account balances transferred to a defined contribution plan administered outside of PRTRS. This transferred group are no longer PRTRS members and are not reflected in this analysis. All subsequent references to PRTRS members in this letter refer only to the closed group of PRTRS members hired prior to August 1, 2014.

The *Fiscal Plan for Puerto Rico* (last revised October 23, 2018) was approved by the Puerto Rico Fiscal Board (a body created by the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA")). Section 16.2.1 anticipates a benefit accrual freeze and subsequent transition to a defined contribution plan and Section 16.2.2 anticipates a 10% reduction in aggregate benefit payments, both with an implementation date of July 1, 2019. As legislation has not been passed yet, the potential freeze and reduction are not reflected in this analysis.

## **Voluntary Transition Program**

### *High Level Overview*

Members who elect to voluntarily resign will receive salary continuation (primarily for a 12 month period) to be paid during Fiscal Year 2018-2019. Members who were eligible to retire at the time of resignation can commence their PRTRS pension benefit after the salary continuation period expires. Members who are not eligible to retire have the option of requesting a refund of contributions to be paid after the salary continuation period expires, or commence their PRTRS pension benefit at a later date when they have met

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retirement eligibility conditions. Due to the demographic makeup of the group of members who have elected to voluntarily resign, a higher than average amount of contribution refunds are expected to be paid in Fiscal Year 2019-2020 after the salary continuation period ends.

### *Census Data*

We were provided with a data file "Transition Program II – Projection Tables.xlsx" dated February 15, 2019 that contained 2,794 records. Of these records, 1,580 were included in (i.e. matched) the July 1, 2016 valuation census data. It is possible that the unmatched records are for employees who were hired August 1, 2014 and later and who are no longer PRTRS members.

Of the 1,580 matched records:

- 285 have requested a refund
- 452 have requested to commence their PRTRS pension
- 843 have not made a request

Of the 452 who have requested to commence their PRTRS pension benefit, we have calculated that 55 are not eligible for retirement as of July 1, 2018 based on the available census data.

Of the 843 who have not made a request, we have calculated that 187 were eligible for retirement at the time of resignation, and the remaining 656 were not based on the available census data.

### **Assumptions**

Members who requested a refund were assumed to receive their refunds during Fiscal Year 2019-2020.

Members who requested retirement and were eligible to retire at the time of resignation based on the available census data were assumed to commence their PRTRS pension benefit during Fiscal Year 2019-2020.

For members who have not yet made a request for a refund or for commencement of their PRTRS pension benefit:

- We have assumed that all members who were determined to be eligible to commence their PRTRS pension benefit will elect to do so during Fiscal Year 2019-2020.
- We have assumed that 90% of the remaining members will elect to receive a refund of their member contributions during Fiscal Year 2019-2020 and 10% will

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elect to commence their PRTS pension benefit at a later date once they become retirement eligible. This assumption was also applied to members who requested retirement and were determined not to be eligible to retire at the time of resignation based on the available census data.

These assumptions are based upon the demographics of the group of members who have elected to voluntarily resign, and will certainly vary once all requests are in. To the extent that more members elect a refund, expected benefit payments would increase in Fiscal Year 2019-2020 and decrease in later years, and vice versa.

## **Results**

The attached exhibit shows the estimated projected PRTS benefit payments for the next thirty years. The estimated projected benefit payments reflect all benefits for defined benefit plan members included in the GASB 67 liability (Basic System Benefits and System Administered Benefits) and the GASB 45 liability (medical insurance plan contribution) as noted in the draft June 30, 2017 actuarial valuation. The estimated projected benefit payments shown reflect an offset for estimated projected contributions from retirees under the age of 55.

Estimated projected member contributions from active members are shown separately.

## **Basis for Analysis**

Milliman's work product is as set forth in this letter, with all caveats, explanations and warnings. To the extent that the Parties include any results prepared by Milliman in any other reports or presentations, and/or make any verbal representations regarding Milliman's work product, Milliman specifically disclaims any responsibility to any third parties who receive or view reports or presentations or discuss them with the Parties.

Except as otherwise indicated, this analysis is based on the plan provisions and actuarial assumptions reflected in the draft June 30, 2017 valuation (dated February 5, 2019). Please refer to that report for more information.

In performing this analysis, we relied on the census data and other information (both written and oral) provided by the Parties. We have not audited or verified the census data or other information. To the extent that any of these are inaccurate or incomplete, the results of this valuation may likewise be inaccurate or incomplete.

Future actuarial measurements may differ significantly from the current measurements presented in this analysis due to factors such as the following:

- Plan experience differing from the actuarial assumptions;
- Future changes in the actuarial assumptions;

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- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes in the plan's funded status); and,
- Changes in the plan provisions or accounting standards.

Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such measurements.

The explanatory notes contained in the draft June 30, 2017 PRTRS actuarial valuation report (dated February 5, 2019), including statements of reliance and limitations on use, continue to apply.

Note that Milliman is not a law firm and cannot provide legal advice. Legal considerations should be reviewed with qualified legal counsel.

We are members of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion.

Please contact us if you have any questions regarding the information provided.

Sincerely,



Glenn D. Bowen, FSA



Katherine A. Warren, FSA

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cc: Carlos Yamin Rivera – AAFAF  
Fernando Batlle – Ankura  
Dennis Barrett – Ankura  
Armando Rivera Díaz – PRTRS  
René Velez Concepción – PRTRS  
José Reyes Portalatín – PRTRS

Attachment

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EXHIBIT

**Estimated Projected Benefit Payments and Active Member Contributions  
for PRTRS Members Hired Before August 1, 2014  
based on the June 30, 2017 Valuation  
adjusted to reflect the 2018 Voluntary Transition Program**

| <u>Fiscal Year<br/>ending</u> | <u>Estimated<br/>Projected<br/>Benefit<br/>Payments</u> | <u>Estimated<br/>Projected Active<br/>Member<br/>Contributions</u> |
|-------------------------------|---|--|
| 6/30/2020                     | \$867,000,000 *   | \$72,000,000   |
| 6/30/2021                     | 840,000,000   | 69,000,000   |
| 6/30/2022                     | 851,000,000   | 67,000,000   |
| 6/30/2023                     | 862,000,000   | 65,000,000   |
| 6/30/2024                     | 871,000,000   | 63,000,000   |
| 6/30/2025                     | 880,000,000   | 61,000,000   |
| 6/30/2026                     | 888,000,000   | 59,000,000   |
| 6/30/2027                     | 896,000,000   | 57,000,000   |
| 6/30/2028                     | 902,000,000   | 54,000,000   |
| 6/30/2029                     | 907,000,000   | 52,000,000   |
| 6/30/2030                     | 915,000,000   | 49,000,000   |
| 6/30/2031                     | 925,000,000   | 46,000,000   |
| 6/30/2032                     | 936,000,000   | 42,000,000   |
| 6/30/2033                     | 947,000,000   | 38,000,000   |
| 6/30/2034                     | 953,000,000   | 35,000,000   |
| 6/30/2035                     | 957,000,000   | 31,000,000   |
| 6/30/2036                     | 958,000,000   | 28,000,000   |
| 6/30/2037                     | 956,000,000   | 26,000,000   |
| 6/30/2038                     | 951,000,000   | 23,000,000   |
| 6/30/2039                     | 944,000,000   | 20,000,000   |
| 6/30/2040                     | 936,000,000   | 18,000,000   |
| 6/30/2041                     | 926,000,000   | 15,000,000   |
| 6/30/2042                     | 914,000,000   | 13,000,000   |
| 6/30/2043                     | 900,000,000   | 10,000,000   |
| 6/30/2044                     | 884,000,000   | 8,000,000  |
| 6/30/2045                     | 867,000,000   | 6,000,000  |
| 6/30/2046                     | 844,000,000   | 4,000,000  |
| 6/30/2047                     | 819,000,000   | 3,000,000  |
| 6/30/2048                     | 790,000,000   | 3,000,000  |
| 6/30/2049                     | 761,000,000   | 2,000,000  |

\* Fiscal Year 2019-2020 benefit payments reflect anticipated contribution refunds and retirements once the 2018 Voluntary Transition Program salary continuation period ends.

This exhibit is an attachment to a February 20, 2019 letter to Mr. Mohammad Yassin Mahmud, Esq. Please refer to that letter for more information, including explanatory notes and statements of reliance.

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